

CITY OF TREYNOR

**INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2012

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City of Treynor

Officials

<u>Name</u>	<u>Title</u> (Before January 2012)	<u>Term Expires</u>
Charles Killion	Mayor	January 2012
Allen Hadfield	Council Member	January 2012
Bryce Poland	Council Member	January 2012
Jody Frain	Council Member	January 2014
Tracy Henke	Council Member	January 2014
Tom Lewis	Council Member	January 2014
Teresa Johnson	City Clerk/Treasurer	Indefinite
Joe Thornton	Attorney	Indefinite

<u>Name</u>	<u>Title</u> (After January 2012)	<u>Term Expires</u>
Bryce Poland	Mayor	January 2016
Jody Frain	Council Member	January 2014
Sara Matthews	Council Member	January 2014 (Appointed 01/18/12)
Tom Lewis	Council Member	January 2014
Allen Hadfield	Council Member	January 2016
Jeff Casey	Council Member	January 2016
Teresa Johnson	City Clerk/Treasurer	Indefinite
Joe Thornton	Attorney	Indefinite



Diane McGrain, CPA
Jim Menard, CPA

November 19, 2012

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund of the City of Treynor, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Treynor's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2011.

In our opinion, except for the effects of such adjustments, if any, as might have been determined necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2011, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund of the City of Treynor as of June 30, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Continued...

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City of Treynor
Independent Auditors' Report
Page Two

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 19, 2012 on our consideration of the City of Treynor's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Treynor's basic financial statements. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Treynor's basic financial statements. Management's Discussion and Analysis and the budgetary comparison information on pages 6 through 11 and 30 through 32 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Schwer & Associates, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Treynor provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities decreased approximately \$5,600 from the prior year.
- The cash basis net assets of the City's business type activities increased approximately \$91,000, mainly due to transfer closings from the capital projects fund to enterprise funds.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a companion of the City's budget for the year.

Supplementary Information provides detailed information about the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-Wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information helps answer this question.

The Statement of Activities and Net Assets present the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer system and garbage operations. These activities are financed primarily by user charges.

FUND FINANCIAL STATEMENTS

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds such as Road Use Tax and Local Option Tax, 3) The Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer and garbage operations, considered to be major funds of the City. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased \$5,688 to \$669,399. The analysis that follows focuses on cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year Ended June 30, 2012
Receipts:	
Program receipts:	
Charges for service	\$ 27,993
Operating grants, contributions and restricted interest	101,806
Capital grants, contributions and restricted interest	21,565
General receipts:	
Property tax	287,711
Local option sales tax	111,857
Other general receipts	14,356
Total receipts	<u>565,288</u>
Disbursements:	
Public safety	65,573
Public works	154,714
Culture and recreation	47,328
General government	129,705
Debt service	73,875
Capital projects	43,131
Total disbursements	<u>514,326</u>
Change in cash basis net assets before transfers	50,962
Other financing sources (uses):	
Operating transfers, net	<u>56,650</u>
Net change in cash basis net assets	(5,688)
Cash basis net assets, beginning of year	<u>675,087</u>
Cash basis net assets, end of year	<u>\$ 669,399</u>

The City's cash balance for business type activities increased \$91,254 to \$465,402 as shown in the following analysis:

Changes in Cash Basis Net Assets of Business Type Activities	
	Year Ended June 30, 2012
Receipts:	
Program receipts:	
Charges for service	
Water	\$ 147,313
Sewer	115,497
Garbage	44,423
General receipts:	
Unrestricted interest on investments	5,595
Miscellaneous	259
Total receipts	<u>313,087</u>
Disbursements:	
Water	135,295
Sewer	99,051
Garbage	44,137
Total disbursements	<u>278,483</u>
Change in cash basis net assets before transfers	34,604
Other financing sources (uses):	
Operating transfers, net	<u>56,650</u>
Net change in cash basis net assets	91,254
Cash basis net assets, beginning of year	<u>374,148</u>
Cash basis net assets, end of year	<u>\$ 465,402</u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Treynor completed the year, its governmental funds reported a combined fund balance of \$658,574, a decrease of \$11,541 above last year's total of \$670,115. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance reported an increase of \$26,610 from the prior year to \$265,654 due to a \$20,000 transfer from the Special Revenue, Local Option Sales Tax Fund.
- The Special Revenue, Road Use Tax Fund cash balance decreased \$20,744 to \$48,742. The decrease is due to road maintenance projects.
- The Special Revenue, Local Option Sales Tax Fund cash balance increased \$61,857 to \$343,569. The City is building the balance for a future DNR mandated project for the sewer system.
- The Debt Service Fund cash balance decreased slightly, by \$117, to \$609 during the fiscal year.
- The Capital Projects Fund cash balance decreased \$79,147 to \$0 during the fiscal year due to closing inactive funds.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased \$19,171 to \$308,395, due in part to transfer from the Capital Projects Fund.
- The Sewer Fund cash balance increased \$65,671 to \$132,421, also due to a transfer from the Capital Projects Fund.
- The Garbage Fund cash balance increased slightly, by \$286 to \$13,285.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget two times. The first amendment was approved on December 5, 2011 and resulted in an increase in distributions of \$45,000 for water main capital project. The second amendment was approved March 22, 2012 to provide for additional interfund transfers.

The receipts were \$60,000 more than budgeted. Due primarily to additional local option sales tax receipts and additional enterprise receipts.

Total disbursements were \$157,000 less than the amended budgeted disbursements. The budget included costs for a street project and a backhoe under public works that were not spent. The City also budgeted high in the business type activities function for possible contingent repairs.

DEBT ADMINISTRATION

At June 30, 2012, the City had \$331,125 in notes and other long term debt outstanding as shown below:

Outstanding Debt at Year End		June 30, 2012
General obligation notes	\$	203,000
Revenue notes		94,000
Loan agreement		34,125
Total	\$	331,125

The constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5 % of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$237,125 is well below its constitutional debt limit of \$2,834,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Treynor's elected and appointed officials and citizens considered many factors when setting the fiscal year 2013 budget, tax rates, and fees that will be charged for various City activities. The City's fiscal year 2013 assessed value decreased approximately \$124,000 over the fiscal year 2012 level.

The proposed fiscal year 2013 budget includes receipts of \$827,812 and disbursements of \$848,593. The fiscal year 2013 budget is comparable to the fiscal year 2012 actual receipts of \$878,376, and distributions of \$804,789.

The fiscal year 2013 levy is \$8.10000 per \$1,000 of assessed property valuation, which is consistent with the fiscal year 2012 levy.

These parameters were taken into account when adopting the budget for fiscal year 2013.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Teresa Johnson, City Clerk, 7 S Eyberg Avenue, Treynor, Iowa.

Basic Financial Statements

City of Treynor
Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2012

			Program Receipts	
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 65,573	968	910	-
Public works	154,714	-	87,168	-
Culture and recreation	47,328	22,405	13,386	-
General government	129,705	4,620	342	-
Debt service	73,875	-	-	-
Capital projects	43,131	-	-	21,565
Total governmental activities	514,326	27,993	101,806	21,565
Business type activities:				
Water	135,295	147,313	-	-
Sewer	99,051	115,497	-	-
Garbage	44,137	44,423	-	-
Total business type activities	278,483	307,233	-	-
Total	\$ 792,809	335,226	101,806	21,565
General Receipts:				
Property tax levied for:				
General purposes				
Debt service				
Local option sales tax				
Unrestricted interest on investments				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Expendable:				
Streets				
Local option sales tax				
Debt service				
Unrestricted				
Total cash basis net assets				

See notes to financial statements

Net (Disbursement) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(63,695)	-	(63,695)
(67,546)	-	(67,546)
(11,537)	-	(11,537)
(124,743)	-	(124,743)
(73,875)	-	(73,875)
(21,566)	-	(21,566)
<u>(362,962)</u>	<u>-</u>	<u>(362,962)</u>
-	12,018	12,018
-	16,446	16,446
-	286	286
<u>-</u>	<u>28,750</u>	<u>28,750</u>
(362,962)	28,750	(334,212)
\$ 244,944	-	244,944
42,767	-	42,767
111,857	-	111,857
-	5,595	5,595
14,356	259	14,615
<u>(56,650)</u>	<u>56,650</u>	<u>-</u>
357,274	62,504	419,778
(5,688)	91,254	85,566
<u>675,087</u>	<u>374,148</u>	<u>1,049,235</u>
\$ <u>669,399</u>	<u>465,402</u>	<u>1,134,801</u>
\$ 48,742	-	48,742
343,569	-	343,569
609	10,388	10,997
<u>276,479</u>	<u>455,014</u>	<u>731,493</u>
\$ <u>669,399</u>	<u>465,402</u>	<u>1,134,801</u>

City of Treynor
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2012

	Special Revenue			
	General	Road Use Tax	Local Option Sales Tax	Debt Service
Receipts				
Property tax	\$ 239,089	-	-	41,744
Other city tax	5,855	-	111,857	1,023
Licenses and permits	5,487	-	-	-
Use of money and property	2,395	-	-	-
Intergovernmental	-	87,168	-	-
Charges for service	22,405	-	-	-
Miscellaneous	26,700	-	-	-
Total receipts	301,931	87,168	111,857	42,767
Disbursements				
Operating:				
Public safety	65,573	-	-	-
Public works	50,166	107,912	-	-
Culture and recreation	47,328	-	-	-
General government	132,194	-	-	-
Debt service	-	-	-	73,875
Capital projects	-	-	-	-
Total disbursements	295,261	107,912	-	73,875
Excess (deficiency) of receipts over (under) disbursements	6,670	(20,744)	111,857	(31,108)
Other financing sources (uses):				
Operating transfers in	23,140	-	-	30,991
Operating transfers out	(3,200)	-	(50,000)	-
Total other financing sources (uses)	19,940	-	(50,000)	30,991
Net change in cash balances	26,610	(20,744)	61,857	(117)
Cash balances beginning of year	239,044	69,486	281,712	726
Cash balances end of year	\$ 265,654	48,742	343,569	609
Cash Basis Fund Balances				
Restricted for:				
Streets	\$ -	48,742	-	-
Local option purposes	-	-	343,569	-
Debt service	-	-	-	609
Unassigned	265,654	-	-	-
Total cash basis fund balances	\$ 265,654	48,742	343,569	609

See notes to financial statements

Capital Projects	Total
-	280,833
-	118,735
-	5,487
-	2,395
21,565	108,733
-	22,405
-	26,700
21,565	565,288
-	65,573
-	158,078
-	47,328
-	132,194
-	73,875
43,131	43,131
43,131	520,179
(21,566)	45,109
-	54,131
(57,581)	(110,781)
(57,581)	(56,650)
(79,147)	(11,541)
79,147	670,115
-	658,574
-	48,742
-	343,569
-	609
-	265,654
-	658,574

City of Treynor
 Reconciliation of the Statement of Cash Receipts, Disbursements
 and Changes in Cash Balances to the Statement of Activities
 and Net Assets - Governmental Funds
 As of and for the year ended June 30, 2012

Total governmental funds cash balances	\$	658,574
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*Amounts reported for governmental activities in the Statement of
 Activities and Net Assets are different because:*

The Internal Service Fund is used by management to charge the cost
 of partial self funding of the City's health insurance benefit plan to
 individual funds. The assets of the Internal Service Fund are included
 in governmental activities in the Statement of Net Assets.

10,825

Cash basis net assets of governmental activities	\$	<u>669,399</u>
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Net change in cash balances	\$	(11,541)
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*Amounts reported for governmental activities in the Statement of
 Activities and Net Assets are different because:*

The Internal Service Fund is used by management to charge the cost
 of employee health benefits to individual funds. The change in net assets
 of the Internal Service Fund is reported with governmental activities.

5,853

Change in cash basis net assets of governmental activities	\$	<u>(5,688)</u>
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See notes to financial statements

City of Treynor
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2012

	Enterprise Funds				Internal Service Fund
	Water	Sewer	Garbage	Total	Employee Health
Operating receipts:					
Use of money and property	\$ -	-	-	-	21
Charges for service	135,271	113,816	44,396	293,483	14,508
Miscellaneous	12,042	1,681	27	13,750	-
Total operating receipts	<u>147,313</u>	<u>115,497</u>	<u>44,423</u>	<u>307,233</u>	<u>14,529</u>
Operating disbursements:					
Governmental activities	-	-	-	-	716
Public works	-	-	-	-	530
General government	128,361	102,081	44,137	274,579	1,304
Business type activities	<u>128,361</u>	<u>102,081</u>	<u>44,137</u>	<u>274,579</u>	<u>2,550</u>
Total operating disbursements					
Excess of operating receipts over operating disbursements	18,952	13,416	286	32,654	11,979
Non-operating receipts (disbursements):					
Interest on investments	4,745	850	-	5,595	-
Rent	259	-	-	259	-
Debt service	<u>(10,030)</u>	<u>-</u>	<u>-</u>	<u>(10,030)</u>	<u>-</u>
Total non operating receipts (disbursements)	<u>(5,026)</u>	<u>850</u>	<u>-</u>	<u>(4,176)</u>	<u>-</u>
Excess of receipts over disbursements	13,926	14,266	286	28,478	11,979
Other financing sources (uses)					
Operating transfers in	6,236	51,405	-	57,641	-
Operating transfers out	<u>(991)</u>	<u>-</u>	<u>-</u>	<u>(991)</u>	<u>-</u>
Total other financing sources (uses)	<u>5,245</u>	<u>51,405</u>	<u>-</u>	<u>56,650</u>	<u>-</u>
Net change in cash balances	19,171	65,671	286	85,128	11,979
Cash balances beginning of year	<u>289,224</u>	<u>66,750</u>	<u>12,999</u>	<u>368,973</u>	<u>10,147</u>
Cash balances end of year	\$ <u>308,395</u>	<u>132,421</u>	<u>13,285</u>	<u>454,101</u>	<u>22,126</u>
Cash Basis Fund Balances					
Restricted for debt service	\$ 10,388	-	-	10,388	-
Unrestricted	<u>298,007</u>	<u>132,421</u>	<u>13,285</u>	<u>443,713</u>	<u>22,126</u>
Total cash basis fund balances	\$ <u>308,395</u>	<u>132,421</u>	<u>13,285</u>	<u>454,101</u>	<u>22,126</u>

See notes to financial statements

City of Treynor
 Reconciliation of the Statement of Cash Receipts, Disbursements
 and Changes in Cash Balances to the Statement of Activities
 and Net Assets - Proprietary Funds
 As of and for the year ended June 30, 2012

Total enterprise funds cash balances	\$	454,101
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*Amounts reported for business type activities in the Statement of
 Activities and Net Assets are different because:*

The Internal Service Fund is used by management to charge the cost
 of partial self funding of the City's health insurance benefit plan to
 individual funds. The assets of the Internal Service Fund are included
 in business type activities in the Statement of Net Assets.

11,301

Cash basis net assets of business type activities	\$	<u>465,402</u>
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Net change in cash balances	\$	85,128
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*Amounts reported for business type activities in the Statement of
 Activities and Net Assets are different because:*

The Internal Service Fund is used by management to charge the cost
 of employee health benefits to individual funds. The change in net assets
 of the Internal Service Fund is reported with business type activities.

6,126

Change in cash basis net assets of business type activities	\$	<u>91,254</u>
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See notes to financial statements

City of Treynor
Notes to Financial Statements
June 30, 2012

(1) Summary of Significant Accounting Policies

The City of Treynor is a political subdivision of the State of Iowa located in Pottawattamie County. It was first incorporated in 1906 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, and general government services. The City also provides water, sewer and garbage utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Treynor has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards: Pottawattamie County Assessor's Conference Board, Pottawattamie County Emergency Management Commission, Southwestern Iowa Solid Waste Management Association and Pottawattamie County Joint E911 Service Board.

Treynor Fire Agency

The City participates in the Treynor Fire Agency. The Agency is made up of the City of Treynor and Silver Creek, Keg Creek, Hardin, Washington and Garner Townships. The Agency was developed as the result of an agreement established pursuant to Chapter 28E of the Code of Iowa between the City and the townships. Upon dissolution, the remaining assets will be distributed to the participating agencies.

City of Treynor
Notes to Financial Statements
June 30, 2012

(1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

City of Treynor
Notes to Financial Statements
June 30, 2012

(1) Summary of Significant Accounting Policies – Continued

B. Basis of Presentation - Continued

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for local option sales tax received by the City.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities, with the exception of those financed through Enterprise Funds.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Garbage Fund accounts for the City's garbage operations.

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

City of Treynor
Notes to Financial Statements
June 30, 2012

(1) Summary of Significant Accounting Policies – Continued

C. Measurement Focus and Basis of Accounting

The City of Treynor maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to the less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012, disbursements did not exceed the amounts budgeted.

City of Treynor
Notes to Financial Statements
June 30, 2012

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board (GASB) Statement No. 3, as amended by Statement No. 40.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Notes Payable

Annual debt service requirements to maturity for general obligation notes and revenue notes are as follows:

Year Ending June 30,	General Obligation Bonds		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 34,000	\$ 7,490	\$ 7,000	\$ 2,820	\$ 41,000	\$ 10,310
2014	34,000	6,230	8,000	2,610	42,000	8,840
2015	34,000	4,955	8,000	2,370	42,000	7,325
2016	34,000	3,665	8,000	2,130	42,000	5,795
2017	39,000	2,360	8,000	1,890	47,000	4,250
2018-2022	23,000	2,910	45,000	5,670	68,000	8,580
2023	5,000	150	10,000	300	15,000	450
	<u>\$ 203,000</u>	<u>\$ 27,760</u>	<u>\$ 94,000</u>	<u>\$ 17,790</u>	<u>\$ 297,000</u>	<u>\$ 45,550</u>

The Code of Iowa requires that principal and interest on general obligation bonds be paid from the Debt Service Fund.

The City has a general obligation debt limit of approximately \$2,834,000 which was not exceeded during the year ended June 30, 2012.

City of Treynor
Notes to Financial Statements
June 30, 2012

(3) Bonds and Notes Payable – Continued

On May 20, 2003, the City entered into agreements with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. for the issuance of \$150,000 in general obligation capital loan notes and \$150,000 of water revenue notes, both with interest rates of 3.0% per annum. The notes were issued pursuant to the provisions of Chapter 384 and Section 384.24A of the Code of Iowa to pay the costs of constructing improvements and extensions to the City's water system.

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$150,000 in water revenue notes issued May 2003. Proceeds from the notes provided financing for the construction of a new water well. The notes are payable solely from water customer net receipts and are payable through 2023. Annual principal and interest payments on the notes required less than 55 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$111,790. For the current year, principal and interest paid and total customer net receipts were \$10,030 and \$18,952, respectively.

Revenue Notes

The resolutions providing for the issuance of the water revenue notes issued under a loan agreement between the City, the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. includes the following provisions:

- (a) The notes will only be redeemed from the future earnings of the water fund and the note holders hold a lien on the future earnings of the fund.
- (b) Sufficient monthly transfers shall be made to a water revenue note sinking account within the water fund for the purpose of making the note principal and interest payments when due.
- (c) All funds remaining in the water fund after making the required transfers shall be placed in a water revenue surplus account. As long as the sinking account has the full amount required to be deposited, the balance in the surplus account may be made available to the City as the Council may direct.

The City is in compliance with the above provisions.

(4) Loan Agreement

On June 1, 2004, the City entered into a loan agreement with a local bank for \$273,000. The funds were used to finance the construction of a Community Center. The loan bears 4.50% per annum interest and matures on December 12, 2012. Annual debt service requirements are as follows:

<u>Year Ending June 30,</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	4.50 %	\$ 34,125	\$ 770	\$ 34,895

City of Treynor
Notes to Financial Statements
June 30, 2012

(5) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2012 was \$15,144, equal to the required contribution for the year.

(6) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 4 active and 1 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug coverage was provided through a partially funded self insurance plan with Employee Benefits Systems/Wellmark-Blue Cross. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$717 for single coverage, and \$1,869 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2012, the City contributed \$4,343 and plan members eligible for benefits contributed \$8,687 to the plan.

(7) Compensated Absences

City employees accumulate a limited amount of earned by unused vacation and comp time hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as distributions by the City until used or paid. The City's approximate liability for earned vacation and comp time to employees at June 30, 2012, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 6,500
Comp Time	8,600
Total	\$ 15,100

This liability has been computed based on rates of pay in effect at June 30, 2012.

City of Treynor
Notes to Financial Statements
June 30, 2012

(8) Self Insurance Program

The City had established a partially funded self insurance medical program which is accounted for in the Employee Health Fund (an internal service fund). This program was used to reduce the employees' maximum out of pocket and coinsurance costs as required by the City health insurance plan. Certain funds of the City made payments to the plan based on an anticipated estimate of amounts needed. Claims are not recognized by the City until paid. The City discontinued the plan in June. At June 30, 2012, there were no incurred and unpaid claims.

(9) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Local Option Sales Tax	\$ 20,000
	Capital Projects	3,140
		<u>23,140</u>
Debt Service	Special Revenue:	
	Local Option Sales Tax	30,000
	Enterprise:	
	Water	991
		<u>30,991</u>
Enterprise:		
Water	Capital Projects	6,236
Enterprise:		
Sewer	General	3,200
	Capital Projects	48,205
		<u>51,405</u>
		<u>\$ 111,772</u>

(10) Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 663 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials' liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

City of Treynor
Notes to Financial Statements
June 30, 2012

(10) Risk Management - Continued

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150% of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2012 were \$15,634.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured on an individual member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2012, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

Other Information

City of Treynor
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds
 Other Information
 Year ended June 30, 2012

	Government Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts			
Property tax	\$ 280,833	-	-
Other city tax	118,735	-	-
Licenses and permits	5,487	-	-
Use of money and property	2,395	5,875	21
Intergovernmental	108,733	-	-
Charges for services	22,405	307,991	14,508
Miscellaneous	26,700	13,750	-
Total receipts	565,288	327,616	14,529
Disbursements			
Public safety	65,573	-	-
Public works	158,078	716	716
Culture and recreation	47,328	-	-
General government	132,194	530	530
Debt service	73,875	-	-
Capital projects	43,131	-	-
Business type activities	-	285,913	1,304
Total disbursements	520,179	287,159	2,550
Excess (deficiency) of receipts over (under) disbursements	45,109	40,457	11,979
Other financing sources (uses), net	(56,650)	56,650	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing sources (uses)	(11,541)	97,107	11,979
Balances beginning of year	670,115	368,973	10,147
Balances end of year	\$ 658,574	466,080	22,126

See accompanying independent auditors' report

Net	Budgeted Amounts		Final to Total Variance
	Original	Final	
280,833	281,722	281,722	(889)
118,735	106,916	106,916	11,819
5,487	3,350	3,350	2,137
8,249	2,500	2,500	5,749
108,733	80,000	101,500	7,233
315,888	299,050	299,050	16,838
40,450	23,500	23,500	16,950
<u>878,375</u>	<u>797,038</u>	<u>818,538</u>	<u>59,837</u>
65,573	67,864	67,864	2,291
158,078	227,507	227,507	69,429
47,328	60,720	60,720	13,392
132,194	154,427	154,427	22,233
73,875	73,875	73,875	-
43,131	-	45,000	1,869
284,609	332,984	332,984	48,375
<u>804,788</u>	<u>917,377</u>	<u>962,377</u>	<u>157,589</u>
73,587	(120,339)	(143,839)	217,426
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
73,587	(120,339)	(143,839)	217,426
<u>1,039,088</u>	<u>815,899</u>	<u>815,899</u>	<u>223,189</u>
<u>1,112,675</u>	<u>695,560</u>	<u>672,060</u>	<u>440,615</u>

City of Treynor
Notes to Other Information – Budgetary Reporting
June 30, 2012

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board (GASB) Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. The City of Treynor's functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, the Capital Projects Fund, and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$45,000. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements did not exceed the amounts budgeted.

Supplementary Information

City of Treynor
Schedule of Indebtedness
Year ended June 30, 2012

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation notes:			
Water improvement	May 20, 2003	3.00%	\$ 150,000
Water improvement	Dec 19, 2007	3.80-4.00%	250,000
Revenue notes:			
Water	May 20, 2003	3.00%	\$ 150,000
Loan Agreement			
Community Center	Jun 1, 2004	4.50%	\$ 273,000

See accompanying independent auditors' report

Schedule 1

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>
\$ 52,000	-	4,000	48,000	1,560
<u>180,000</u>	<u>-</u>	<u>25,000</u>	<u>155,000</u>	<u>6,750</u>
\$ <u>232,000</u>	<u>-</u>	<u>29,000</u>	<u>203,000</u>	<u>8,310</u>
\$ <u>101,000</u>	<u>-</u>	<u>7,000</u>	<u>94,000</u>	<u>3,030</u>
\$ <u>68,250</u>	<u>-</u>	<u>34,125</u>	<u>34,125</u>	<u>2,310</u>

City of Treynor
Bond and Note Maturities
June 30, 2012

General Obligation Notes					
Ending June 30,	Water Improvement Drinking Water Issued May 20, 2003		Water Improvement Well Construction Issued Dec 19, 2007		Total
	Interest Rate	Amount	Interest Rate	Amount	
2013	3.00%	\$ 4,000	3.80%	\$ 30,000	\$ 34,000
2014	3.00%	4,000	3.85%	30,000	34,000
2015	3.00%	4,000	3.90%	30,000	34,000
2016	3.00%	4,000	3.95%	30,000	34,000
2017	3.00%	4,000	4.00%	35,000	39,000
2018	3.00%	4,000	-	-	4,000
2019	3.00%	4,000	-	-	4,000
2020	3.00%	5,000	-	-	5,000
2021	3.00%	5,000	-	-	5,000
2022	3.00%	5,000	-	-	5,000
2023	3.00%	5,000	-	-	5,000
Total		\$ 48,000		\$ 155,000	\$ 203,000

See accompanying independent auditors' report

<u>Revenue Notes</u>		
<u>Water</u>		
<u>Issued May 20, 2003</u>		
<u>Interest</u>		
<u>Rate</u>		<u>Amount</u>
3.00%	\$	7,000
3.00%		8,000
3.00%		8,000
3.00%		8,000
3.00%		8,000
3.00%		8,000
3.00%		9,000
3.00%		9,000
3.00%		9,000
3.00%		10,000
3.00%		10,000
	\$	<u>94,000</u>

City of Treynor



Diane McGrain, CPA
Jim Menard, CPA

November 19, 2012

Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit Performed
in Accordance with *Government Auditing Standards*

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of the City of Treynor, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated November 19, 2012. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we are unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2011. Except as noted in the Independent Auditors' Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of the City of Treynor is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Treynor's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of City of Treynor's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Treynor's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

Continued...

City of Treynor
Report on Compliance and Internal Control

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of City of Treynor's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part I of the accompanying Schedule of Findings to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Treynor's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. However, we noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Treynor's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit City of Treynor's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Treynor and other parties to whom the City of Treynor may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Treynor during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Schroer & Associates, P.C.

City of Treynor
Schedule of Findings
Year ended June 30, 2012

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCY:

I-A-12 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider this.

Conclusion - Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Treynor
Schedule of Findings
Year ended June 30, 2012

Part II: Other Findings Related to Statutory Reporting:

- II-A-12 Certified Budget – Disbursements during the year ended June 30, 2012 did not exceed the amounts budgeted for any function.
- II-B-12 Questionable Disbursements – We noted no disbursements for parties, banquets or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-12 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- II-D-12 Business Transactions – No business transactions between the City and City officials or employees were noted.
- II-E-12 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-12 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-G-12 Deposits and Investments – We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa, and the City's investment policy.
- II-H-12 Revenue Note – The City has complied with the revenue note resolutions.
- II-I-12 Excess Balances – The balances in the Special Revenue, Local Option Sales Tax Account and the Enterprise - Water Account were in excess of the respective fund's disbursements during the year.

Recommendation – The City should consider the necessity of maintaining these substantial balances and, where financially feasible, consider reducing the balances in an orderly manner through revenue reductions.

Response – We are maintaining the fund balances for future projects.

Conclusion – Response accepted.